

Message Text

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ACTION NEA-16

INFO OCT-01 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 IO-14 AID-20 COME-00 EB-11 FRB-02 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20

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R 260600Z JUN 74

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 3484

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SUBJ: ECONOMIC REVIEW

REF: DACCA 2884

BEGIN SUMMARY: ANNUAL BUDGET SPEECH PROVIDED DEPRESSING REVIEW OF PERFORMANCE OF ECONOMY IN FY 74. PRODUCTION TARGETS NOT MET, INVESTMENT VERY LOW, NATIONALIZED SECTOR MORE A LIABILITY THAN AN ASSET, EXPORTS WEAK, DEFICIT FINANCING HIGH, AND INFLATION 40 PERCENT THIS PAST YEAR. BDG MOVING, HOWEVER, IN SOME SPHERES-CUTTING BACK SUBSIDIES, RAISING REDISCOUNT RATE. SPEECH CALLED FOR INCREASE IN OUTPUT AND OBSERVATION OF AUSTERITY AT ALL LEVELS, BUT GOVT. COMMITMENT TO MASSIVE FOODGRAIN SUPPLY FROM ABROAD CONTINUES: LARGE AMOUNT LAID OUT FOR FOOD IMPORTS, WHICH WILL, AGAIN, CUT BACK ON NON- FOOD IMPORTS NEEDED FOR DEVELOPMENT. END SUMMARY.
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1. AT TIME OF BUDGET PRESENTATION BY FINANCE MINISTER TAJUDDIN AHMED (REF), NO DETAILED ECONOMIC REVIEW WAS PUBLISHED AND DISTRIBUTED. SUMMARY HOWEVER GIVEN IN BUDGET SPEECH, STARTING OFF WITH CLAIM THAT AGAINST TARGET OF GROWTH RATE OF 14 PERCENT FOR FY 74 ABOVE FY 73, SOME 12 PERCENT ACHIEVED (AT FY 73 PRICES). NO REFERENCE MADE TO PERFORMANCE AGAINST BENCHMARK YEAR OF FY 70. LATER IN SPEECH TAJUDDIN ACKNOWLEDGED PRODUCTION OF FOODGRAINS LOWER THAN TARGET BY 9.7 PERCENT AND JUTE GOODS BY 17 PERCENT. PRODUCTION SHORTFALLS ALSO IN OTHER MAJOR INDUSTRIES--COTTON TEXTILES DY 20 PERCENT, SUGAR BY 12 PERCENT, ETC.

2. TARGET FOR PRIVATE INDUSTRIAL INVESTMENT HAD BEEN FIXED AT TK 30 CRORE, ONLY TK 5.31 CRORE EXPECTED TO BE REALIZED. INVESTMENT TARGET IN MUCH LARGER PUBLIC-SECTOR INDUSTRY NOT SPECIFIED. VERY LITTLE PROFIT REALIZED FROM PUBLIC-SECTOR INDUSTRY OR TRADING ORGANIZATIONS; ONLY NATIONALIZED BANKS AND INSURANCE COMPANIES CONTRIBUTED MUCH REVENUE.

3. TAJUDDIN REVEALED BORROWINGS OF NATIONALIZED SECTOR FROM NATIONALIZED BANKS REACHED TK 115.93 CRORE IN FY 74. TK 29.18 CRORE OF OUTSTANDING LOANS TO AILING JUTE INDUSTRY CONVERTED INTO LONG-TERM DEBENTURES. TAJUDDIN ALSO DISCLOSED--FOR THE FIRST TIME PUBLICLY--THAT THIS INDUSTRY HAD BEEN SUBSIDIZED DIRECTLY BY BDG TO EXTENT TK 10.50 CRORE.

4. NO FIGURES GIVEN ON TOTAL IMPORTS DURING FY 74; THESE MAY BE RELEASED WHEN IMPORT POLICY ANNOUNCED FOR SHIPPING PERIOD JULY-DECEMBER 1974. TARGET FOR EXPORT WAS TK 340 CRORE BUT ONLY TK 32 CRORE EXPECTED TO BE REALIZED. (WE HAVE MORE REALISTIC ESTIMATE AS LOW AS TK 250 CRORE.) EXPORT EARNINGS FOR FY 75 PUT AT TK 379 CRORE (RECORD IN FY 70 WAS FOR 430 CRORE IN PRE-DEVALUATION PAK RUPEES.) SHORTFALL IN EXPORT EARNINGS TOOK PLACE DESPITE INCREASE IN PRICES OF MAJOR ITEMS (JUTE GOODS, RAW JUTE, LEATHER, TEA) AND DESPITE SUBSIDIES ON TEA AND NON-TRADITIONAL EXPORTS, ALSO ON OVERSEAS REMITTANCES.

5. BESIDES LOW EXPORT EARNINGS, OVERALL POOR PERFORMANCE OF ECONOMY ASCRIBED TO HIGH WORLD PRICES FOR IMPORTS AND FREIGHT (THOUGH THIS WAS NOT QUANTIFIED) AND "SHORTFALL" IN FOREIGN AID--I.E. SLOW DISBURSEMENT OF AID PROVIDED. TAJUDDIN ALSO ENUMERATED LIMITED OFFICIAL USE

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PROBLEMS IN INDUSTRY IN FOLLOWING ORDER: DISRUPTION OF POWER SUPPLY, LAW AND ORDER SITUATION, LACK OF FINANCIAL DISCIPLINE, INADEQUACY OF ORGANIZATIONAL SETUP AND MANAGEMENT PERSONNEL, AND LACK OF "OPTIMUM UTILIZATION" OF LABOR FORCE.

6. FINANCE MINISTER REPORTED THAT COST OF LIVING ROSE 40 PERCENT DURING FY 74. LARGELY AS RESULT OF DEFICIT FINANCING, MONEY SUPPLY SOOD AT TK 829--TK 133 CRORE OVER PREVIOUS YEAR.

7. TO REDUCE QUANTUM OF DEFICIT FINANCING, TAJUDDIN NOTED GOVERNMENT HAD CUT BACK SUBSIDIES ON AGRICULTURAL INPUTS AND FOODGRAINS (ALSO EDIBLE OIL). NOTED THAT LIBERAL CREDIT POLICY TO DATE HAS RESULTED IN LOW RATE OF SAVINGS AND ACCENTUATION OF INFLATION. GOVERNMENT HAS DECIDED (EFFECTIVE JUNE 21) TO INCREASE REDISCOUNT RATE FROM 5 PERCENT TO 8 PERCENT PER YEAR; OTHER LENDING AND SAVINGS RATE WILL ALSO BE ADJUSTED.

8. THOUGH FOOD SUBSIDY TO BE REDUCED FROM TK 96.26 CRORE IN FY 74 TO TK 60 CRORE IN FY 75, GOVERNMENT COMMITMENT TO RATION SHOP SYSTEM STILL STRONG. FY 74 FOOD IMPORTS TOTALLED 1.98 MMT, SLIGHTLY UNDER 2.2 MMT PROJECTED. IN FY 74 BDG PROCURED DOMESTICALLY 71,000 MT AT COST OF TK 12.19 CRORE, OR AT A PER MAUND COST OF TK 64. FY 75 PRODUCTION TARGET IS 14.4 MMT AND GAP TO BE FILLED BY IMPORTS REPORTED TO BE 1.7 MMT. BDG HAS ALLOCATED TK 287 CRORE (\$402 MILLION) FOR FOODGRAIN PURCHASES. THIS FIGURE REPRESENTS ROUGHLY TWO-THIRDS FY 75 EXPORT TARGET AND IF REALIZED WILL RESULT IN CONTINUING CONSTRAINT ON NON-FOOD IMPORTS. LOW LEVEL OF LATTER HAS BEEN ONE OF MAJOR REASONS FOR SLOW RESTORATION OF ECONOMY AND SLOW PROGRESS TOWARD DEVELOPMENT.

9. STAGNATION OF ECONOMY ACKNOWLEDGED BY TAJUDDIN IN BUDGET SPEECH, WHERE HE WENT ON TO CALL FOR INCREASING OUTPUT AND EFFICIENCY "AND OBSERVING AUSTERITY AT ALL LEVELS". HE CLOSED HIS ADDRESS BY NOTING THAT FY 74 HAS BEEN "A PERIOD OF EXPERIENCE WITH REALITIES. SOME SOUL SEARCHING IS NEEDED TODAY, BECAUSE MERE SLOGANS AND SPEECHES CANNOT BRING SOCIALISM, ELIMINATE CORRUPTION AND ACHIEVE ECONOMIC DEVELOPMENT. THERE IS A CRYING NEED FOR HONESTY, HARDWORK AND DISCIPLINE AT ALL LEVELS; FOR THE PEOPLE CANNOT BE DECEIVED FOR ALL TIMES BY PALLIATIVES. I BELIEVE, WE NEED A TOTAL COMMITMENT OF THE LEADERSHIP, MANPOWER AND ALL OTHER RESOURCES FOR THE OVERALL DEVELOPMENT OF THE COUNTRY." AMEN.

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